

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF SOUTH SHORE)
WATER WORKS COMPANY FOR A) CASE NO. 9330
GENERAL RATE INCREASE)

O R D E R

IT IS ORDERED that South Shore Water Works Company ("South Shore") shall file an original and ten copies of the following information with the Commission with a copy to all parties of record within 20 days from the date of this Order. South Shore shall also furnish with each response the name of the witness who will be available at the public hearing for responding to questions concerning each area of information requested. If neither the requested information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

It is the practice of this Commission to allow only known and measurable increases to actual test year expenses which can be substantiated by appropriate documentation (invoices and/or other related material) supporting increases to the actual expense. The Commission issued an Information Order directed to South Shore on June 19, 1985, and South Shore filed its response on July 8, 1985. The Commission, after reviewing the information submitted by South Shore, is of the opinion that further documentation is needed on certain issues before they can be considered for rate-making purposes.

1. Provide the following additional information concerning the \$250,000 note issued by South Shore dated March 13, 1985, in favor of First and Peoples Bank, South Shore, Kentucky, at an interest rate of 12%:

- a. Exhibit 1, Item 6 of South Shore's application indicates that the note will mature in 12 months. Does South Shore intend to renew the note and for what period of time? Will South Shore be able to repay the note within 2 years? If not, does South Shore intend to request approval for this financing?
- b. Is the payment of the principal and accrued interest on the note a liability of South Shore or the stockholders individually?
- c. Item No. 7 of South Shore's response dated July 8, 1985, indicates that \$200,000 of the note was used to pay Byron Hannah for his interest in the water company. How was this amount determined and how many shares of stock did it represent? Moreover, was this transaction considered a treasury stock transaction? Provide the accounting journal entries recording the liability of the note on the records of South Shore and the subsequent disposition of the funds in the area of stock purchase, relocation of water lines and repayment of a loan to James E. Hannah Realty.
- d. What was the purpose of the \$26,000 loan from the James E. Hannah Realty? What was the original date of the loan?

e. Provide copy of the \$250,000 note.

2. On page 3, Item No. 17 of the prefiled testimony of Joe Hannah, it indicates that \$17,000 was spent on water line relocation during 1984. Was this amount capitalized? If so, does South Shore intend to capitalize the remainder, some \$32,580? Is the \$24,000 portion of the loan a result of those expected line relocations.

3. Item 1c of South Shore's response indicates that J. Byron Hannah was paid \$6,000 during the test period. What is his function in the operation of the water company? Will J. Bryan Hannan be paid this amount in 1985?

4. Item 1e of South Shore's response shows that the two additional maintenance men were hired on March 26, 1985 at an annual salary of \$10,000 each. Provide the following information concerning these new employees:

- a. What prior experience in the maintenance of a water system did each of the employees have?
- b. How did South Shore arrive at the annual base salary of \$10,000?
- c. The Commission's review of the application indicates that South Shore intends to replace substantial amounts of water lines from 1 and 2 inch to 4 inch water mains. Will the new maintenance employees be employed substantially in the anticipated renovation of the system?

5. Item No. 3 of South Shore's response, and also on line 44, page 7 of its 1984 Annual Report indicates a reduction in the

amount of \$29,921 in Account No. 271 - Contributions in Aid of Construction representing cash payments to the original contributors. Provide the following information concerning this transaction:

- a. Provide the name and amount of refund received by each recipient.
- b. What prompted the refund of this contributed capital?
6. Provide the following additional documentation with regard to individual amounts representing income from non-utility operations of \$13,435:
 - a. What factors were considered in determining the amount to be charged to the City of South Shore for billing service?
 - b. What is the source of rental income of \$515?
 - c. Does an employee of the water company serve as secretary-bookkeeper for the James E. Hannah Realty Company at an annual fee of \$2,500?
 - d. Identify the source of Miscellaneous Receipts of \$3,020.
 - e. Have these non-utility revenues been offset by associated expenses? If not, are the associated expenses included in the operating expense accounts of the water company. Also, identify the water company expense accounts affected by these transactions.
7. Provide the following information concerning other taxes included in test period operating expenses:

- a. Item 5 of the Commission's first request for information requested a copy of tax bills representing taxes of \$11,177. The Commission renews this request as the tax bills were not attached to South Shore's response.
 - b. A portion of the total taxes mentioned in question 7a is shown as Sales and Use Tax of \$523. Were these taxes collected on water sales and reported as a part of operating revenues?
 - c. Item No. 6 of South Shores response shows miscellaneous customer accounts expense of \$1,691 identified as Revenue Cabinet Assessment of \$1,033 and Other Licenses \$657. Provide a copy of the tax bills pertaining to these taxes.
8. Provide the following information concerning chemical expense:
- a. Chemical expense of \$9,296 was included in test period operating expenses of South Shore. Does this amount include the cost of the special chemicals used to prevent discoloration in the water and billed to the customers?
 - b. The Commission has made a comparison of chemical expense for the years 1983 and 1984 and finds an increase of \$2,830 or 43.7%. What caused this abnormal increase in this expense item?

c. Item 10a of the response of South Shore indicates that future chemical cost will be \$8,730. Have you adjusted test period chemical expense of \$9,296 to reflect the future level of expense? If not, should this pro forma adjustment be made to chemical expense?

d. Provide an analysis of the pro forma cost of chemicals of \$8,730 and the basis for this computation.

9. On page 23 of the 1984 Annual Report, under the caption Water Produced, Purchased and Distributed, line 11 shows 16,800,000 gallons of water being used by the company. Provide documentation supporting this water usage. Furthermore, how does the company determine the amount of water used for its own purposes?

10. Item 6 of the response shows that Kimbleton and Russell, CPA, were paid \$1,875 during the test period. Does this amount represent their normal recurring annual accounting fee?

11. The Commission finds, after a review of Kimbleton Exhibit No. 2 - depreciation schedule for the period January 1, 1984 thru December 31, 1984, that depreciation expense has been computed on both a straight-line and 150% double declining balance methods of computing depreciation expense. The Commission requires that all depreciation be computed on the straight-line method for rate-making purposes. Provide this computation.

12. Provide a reconciliation of the figures applying to Miscellaneous Service Revenues which are included in response numbers 12 and 14.

13. With regard to response No. 10c of South Shore, what adjustments are necessary to the original application to reflect South Shore's intent?

14. Exhibit No. 3 attached to the application shows proposed improvements totalling \$248,016. After deducting line relocation cost of \$32,000, how does South Shore intend to finance the balance of improvements and equipment purchases of \$216,016?

15. Does South Shore intend to request a certificate of public convenience and necessity for this proposed construction.

Done at Frankfort, Kentucky, this 7th day of August, 1985.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary